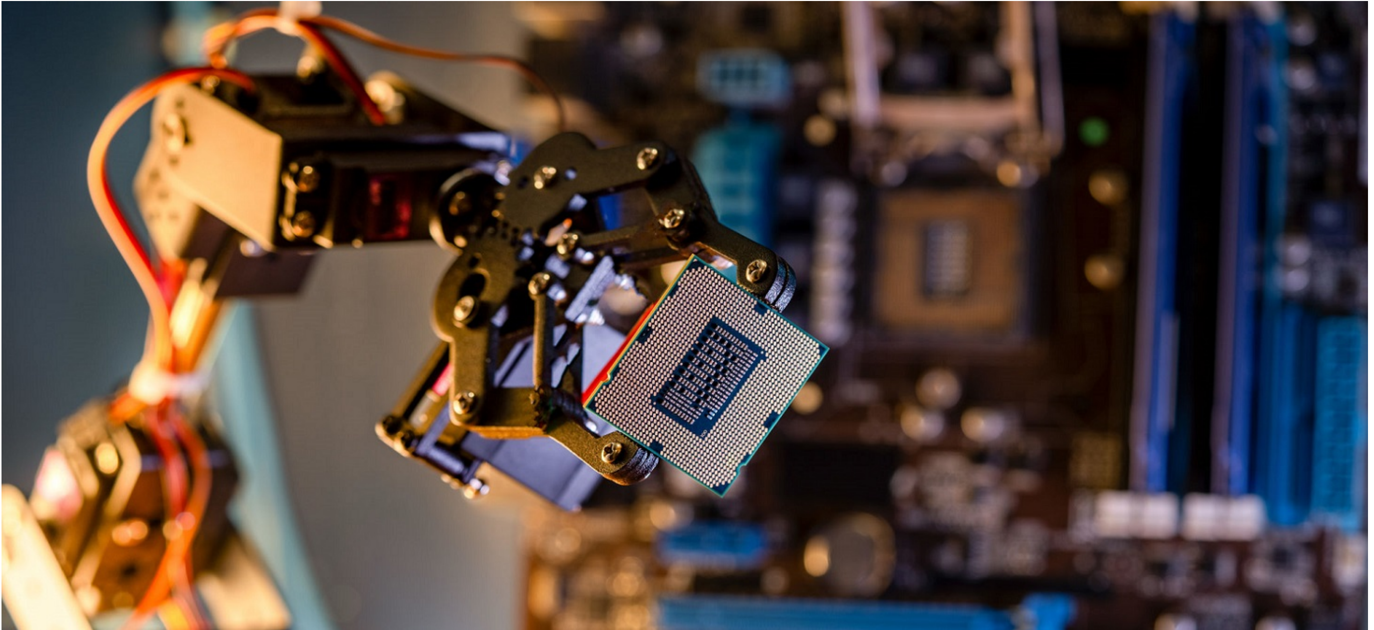

Early results from key semi names pointed to healthy and sustainable AI demand that should continue to drive growth in the years ahead. (UBS)

Why fundamentals should return as market drivers

29 October 2024, 3:00 pm CET, written by UBS Editorial Team US Editorial Team

Markets have entered the home stretch with just one week until the US election, and the outcome remains a toss-up. The latest polls continue to shift between the two candidates in some of the key swing states, although the odds of a Trump win have moved up in prediction markets in recent weeks.

There is the possibility that the outcome is not known for several weeks after the ballot closes on 5 November, as potential recounts and legal contests could see the winner only declared by 11 December, the deadline for states to declare their electoral college votes. But once the dust settles, we think fundamentals should reclaim their spot in the driver's seat, determining the market direction.

The US economic expansion appears sustainable. Investors will be looking out for a number of data points this week that could shape the Federal Reserve's next move, starting with the Job Openings and Labor Turnover Survey for September due today. While it's a lagging figure, it nonetheless offers insight into the health of the labor market. This will be followed by the Fed's preferred inflation gauge, the personal consumption expenditures (PCE) price index for September, and October's nonfarm payrolls later in the week. Overall, recent data suggest the US economy is stronger than previously thought, while the broad disinflationary trend remains intact.

The Fed remains set to press ahead with policy easing. The Federal Open Market Committee will meet just one day after the US election, with an interest rate decision expected on 7 November. Recent comments from Fed officials suggest that a 25-basis-point rate reduction remains probable, as the US central bank continues to move toward a neutral policy stance. We expect 50 basis points of rate cuts for the rest of this year and a further 100 basis points of easing in 2025. Historically, Fed rate cuts in non-recessionary periods have been favorable for equities.

Tech earnings should continue to support AI growth. Google parent Alphabet is set to kick off big tech reporting today after the market close, followed by Microsoft, Meta, Amazon, and Apple in the next two days. With tech valuations having recovered more than 15% from their August lows, the bar is high for the sector to strongly "beat and raise." But early results from key semi names pointed to healthy and sustainable AI demand that should continue to drive growth in the years ahead. We believe big tech's combined capex spending this year and next bode well for the AI story.

So, we continue to see a fundamental outlook that is positive and favorable for risk assets, and we expect the S&P 500 to move higher and reach 6,600 by the end of 2025. We rate US equities as Attractive.

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Original report - **Fundamentals should return as market drivers, 29 October 2024.**

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